Recent Net Leased, Multifamily and General Market Valuation Observations

Dear Clients and Friends:

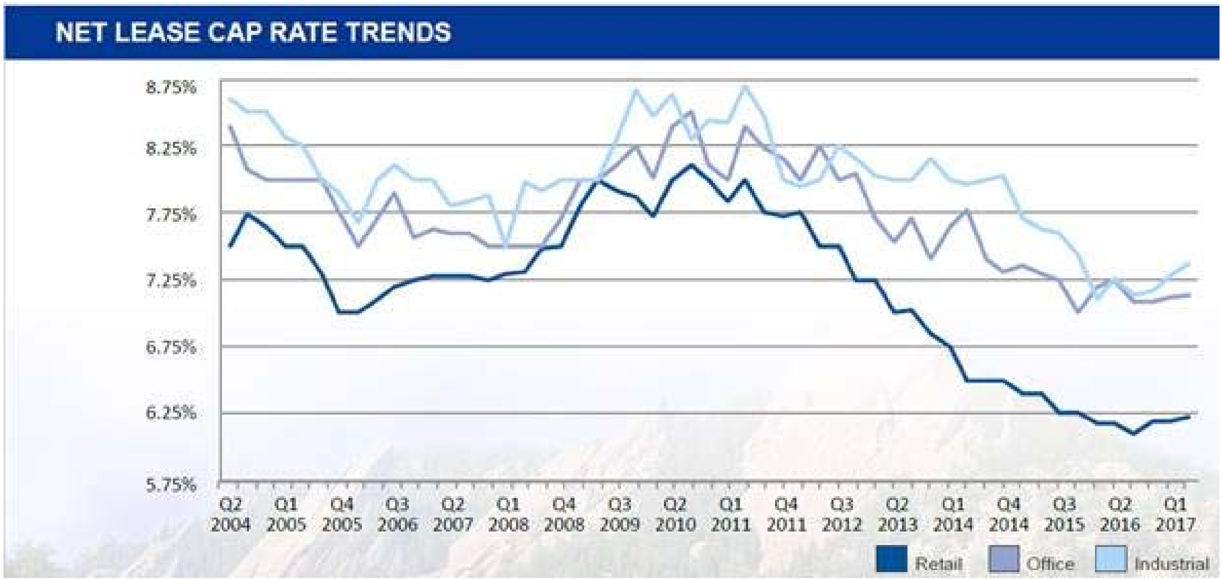
We at Mick Law, P.C. started in October, 2015 advising you that cap rates on triple net leased assets were nearing a historic low and there was not much left on valuation upside. Those of you who have attended our real estate symposia or invited me to speak at your RIA or BD events have seen the Mick Law, P.C. PowerPoint slides on the anatomy of a NNN investment hold and our premise that cap rates on a long-term NNN leased investment need to DROP on a forward basis to recover capital given the differential in cap rates on shorter term (especially pronounced on ten year or less residual term) leases at disposition. This situation is exacerbated with interest-only debt, a financing structure we abhor on long-term holds. While we figured there may be a lag in cap rate adjustments following hikes in short-term rates, and weren't sure how much the longer end of the curve would be affected, it appears that based on the Boulder Group's second quarter 2017 research this is starting to play out.

Net Leased Market

According to the 2nd quarter 2017 Net Leased Market Report completed by The Boulder Group, cap rates for single tenant net leased properties in all classes increased across all classes. Cap rates for the net leased industrial sector increased by ten basis points during the 2nd quarter, while the cap rate for retail and office properties increased by four and two basis points, respectively. A summary of the three major property types and their respective average capitalization rates are presented below:

Property Type	Q1 2017	Q2 2017	Basis Point Change
Retail	6.19%	6.23%	+4
Office	7.12%	7.14%	+2
Industrial	7.27%	7.37%	+10

A more complete view of capitalization rate trends can be found below. As is outlined within the chart, capitalization rates are experiencing their first upward trend since the second quarter of 2010.



Despite widespread anticipation regarding instant cap rate expansion due to the Federal Reserve's recent monetary policy changes, an immediate effect on cap rates did not occur. In fact, after announcing three rate hikes since December 2016, the 10-year treasury yield has declined since the beginning of 2017.

With an expectation of cap rates rising between 25 and 50 basis points by the end of 2017, there is some push back on pricing due to the historically low cap rate environment. In the second quarter of 2017, the spread between asking and closed cap rates widened across all three sectors. The spread increased by 6 basis points for both the net lease retail and industrial sectors to 35 and 32 basis points respectively. The spread in the net lease office sector increased by five basis points to 31 during the same time period. After years of the market being perceived as being more favorable to sellers than buyers, the widening spread combined with a change of investor sentiment has shifted the market back to neutral.

The number of properties for sale was up among all categories, an indication that sellers are attempting to take advantage of the low cap rate climate before further change occurs. A summary of the number of properties available in all three major property types rates is outlined below:

Property Type	Q1 2017	Q2 2017	Percentage Change
Retail	3,788	3,968	5%
Office	395	357	-10%
Industrial	359	368	3%

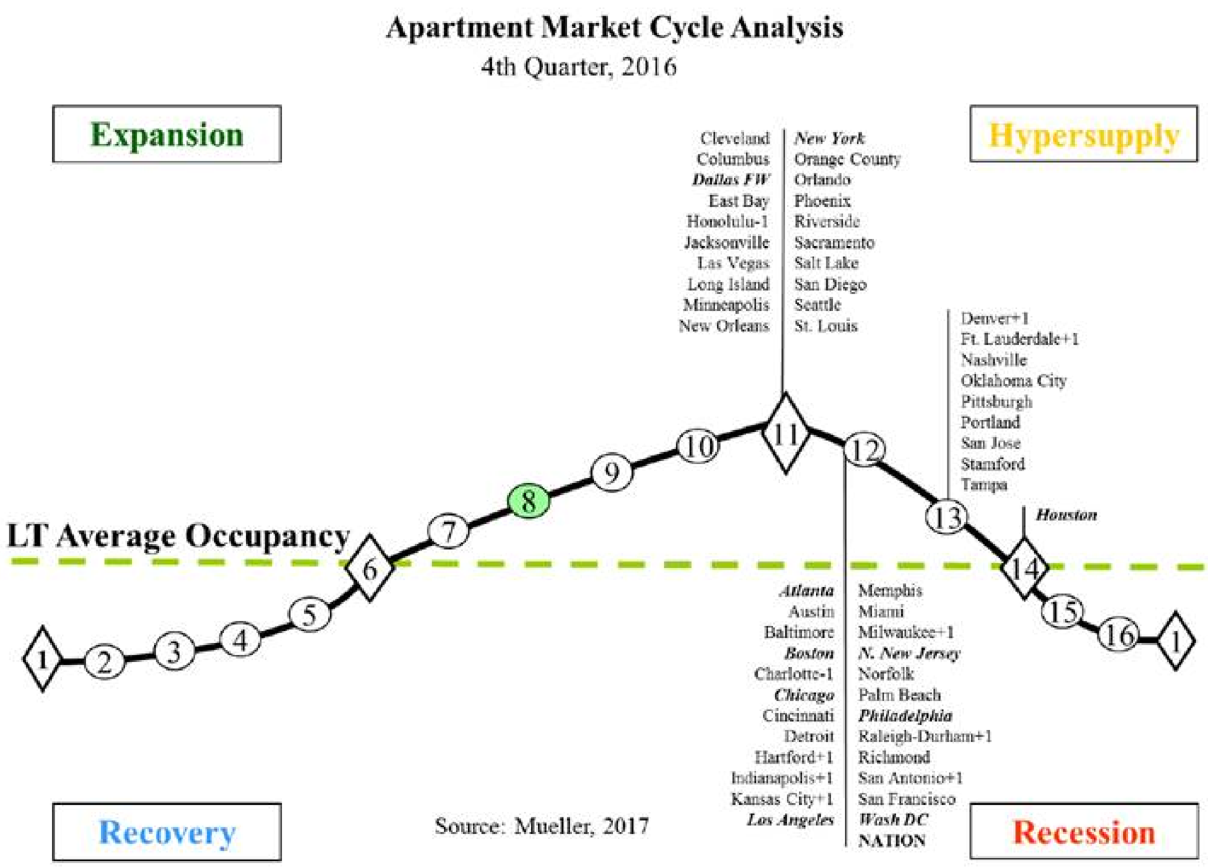
The net leased market is expected to remain active the balance of 2017 as investor demand for the net leased asset class remains strong. Our expectation is that capitalization rates will continue to increase slightly during the balance of the year. After the decision to raise interest rates at the federal reserve meeting in December and again in March, investors will carefully monitor capital markets and the effect of the interest rate hikes on pricing.

Apartment Construction Starts

About a year ago we started to include the following provision in our opinions on new Class A multifamily assets:

"*Future multifamily valuation environment*. Based upon our firm's database research, industry analytics, and financing sources, it appears that when analyzing rental growth rates accelerating at a reduced period over period rate, slightly increasing vacancies, and supply deliveries in many markets, especially tier-one suburban, that NOI growth may be challenged and valuations may be cooling. While commercial real estate performance and valuation remains largely a local exercise in underwriting the asset class and submarket as it relates to the Projects, and debt structure may come into play, developing performance and valuation metrics in the multifamily asset class should be cause for concern."

Similar to our assumptions on the net leased market, we have been a little early on the multifamily valuation observations but it's a fools game to pick an exact top or bottom. We acknowledge that underwriting assets is a local market exercise, which we believe we do quite well, but generally there was no compelling reason to buy or build apartments in any one of the top 50 metros six months ago:



The article below may validate our original position. In July construction starts for multifamily assets **slumped a whopping 17%**.

U.S. Home Construction Slumped in July

General Real Estate Market Observations

While the below article may overstate the downside, we have recently produced opinions which summarize many of the commercial real estate asset classes, including senior housing, hospitality and storage in addition to the four major food groups. While buying opportunities exist in selected markets and certain asset classes are still on the front-end of the valuation cycle in some major metros, we are advising clients that the rare investment opportunity involves being the last common equity dollar in on an existing, stabilized asset. It is our opinion that at this stage of the cycle the focus should be on mezz, preferred equity, development or real repositioning or value buys.

Ventures Begin to Circle Commercial Real Estate

In summary, unlike the rubberstampers who validate legal structure and disclosures without negotiating better fee structures, doing forward market analysis or real time independent asset underwriting, sometimes raking in fees in the six-figure range in the process, we want to assist our clients with active risk mitigation and ensure the best opportunity for their investors to realize a competitive return commensurate with the risk. FINRA 09-09 and 15-02 were no accident, nor are the ongoing and upcoming poor performance of many non-listed REITs. It's simple math.

Sincerely,

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